

tended to underrate the growth in those two programs. And during the 1990-1993 period, as Figure B-1 implies, under- or overestimates of deposit insur

ance virtually swamped all other technical misestimates.

How the Economy Affects the Budget

The federal budget is highly sensitive to the economy. Revenues depend on taxable incomes--including wages and salaries, interest and other nonwage income, and corporate profits--which generally move in step with economic growth. Many benefit programs are pegged to inflation, either directly (like Social Security) or indirectly (like Medicare); others (primarily unemployment insurance) are linked to the unemployment rate. And the Treasury continually borrows and refinances the government's debt at market interest rates.

The Congressional Budget Office (CBO) has distilled the links between key economic assumptions and federal budget projections into four rules of thumb. Those rules generate estimates of the impact on budget totals of changes in real growth, unemployment, inflation, and interest rates. Each rule assumes that the economic variable in question differs from CBO's baseline assumption by 1 percentage point, starting in January 1995. As noted below, such rules of thumb are highly simplified and should be used with caution. Budget projections are also subject to other kinds of errors that are technical in nature and not directly related to economic forecasting. However, there is no similarly easy way to encapsulate the variability of budget outcomes that can stem from technical uncertainty.

Real Growth

Strong economic growth narrows the federal budget deficit, and weak economic growth widens it. The

first rule of thumb produces an estimate of the budgetary impact of economic growth that is significantly weaker than that assumed in CBO's baseline.

In its baseline, CBO assumes that the strong economic growth experienced in 1994 continues into the first part of 1995 before slackening. That assumption results in a rate of growth in real gross domestic product (GDP) that averages 3.1 percent in 1995. Real GDP growth falls below 2 percent in 1996, then levels off at about 2.3 percent thereafter. Subtracting 1 percentage point from the rate of real growth beginning in January 1995 implies more moderate growth in that year, followed by fairly anemic growth in the succeeding years. Under that slow-growth scenario, by 2000, GDP lies more than 5 percent below CBO's baseline assumption.

Weak economic growth also dampens the labor market--the unemployment rate inches up as businesses employ fewer workers in response to weak demand. By 2000, the slow-growth scenario produces an unemployment rate of just over 8 percent, more than 2 percentage points above the baseline.

This scenario significantly impedes growth in taxable incomes, leading to revenue losses that mount from \$9 billion in 1995 to \$125 billion in 2000 (see Table C-1). The loss in revenues in 2000 is more than 7 percent of baseline revenues, somewhat greater than the 5 percent loss in GDP. Outlays for benefit programs--chiefly unemployment insurance--rise by only \$1 billion in 1995. In the following years, however, they climb by larger amounts,

Table C-1.
Effects on CBO Budget Projections of Selected Changes
in Economic Assumptions (By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000
Real Growth: Effect of 1-Percentage-Point Lower Annual Rate Beginning January 1995						
Change in Revenues	-9	-27	-49	-72	-97	-125
Change in Outlays						
Net interest (Debt service)	a	2	5	9	15	24
Mandatory spending	<u>1</u>	<u>3</u>	<u>5</u>	<u>7</u>	<u>10</u>	<u>12</u>
Total	1	4	9	16	25	36
Change in Deficit	10	32	59	88	122	161
Unemployment: Effect of 1-Percentage-Point Higher Annual Rate Beginning January 1995						
Change in Revenues	-35	-51	-54	-56	-58	-61
Change in Outlays						
Net interest (Debt service)	1	5	9	13	17	23
Mandatory spending	<u>3</u>	<u>5</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>
Total	4	10	14	19	23	29
Change in Deficit	39	61	68	74	81	89
Inflation: Effect of 1-Percentage-Point Higher Annual Rate Beginning January 1995						
Change in Revenues	7	21	37	54	72	92
Change in Outlays						
Net interest						
Higher rates	5	17	24	29	34	40
Debt service	a	a	a	1	1	2
Discretionary spending	a	a	1	3	9	14
Mandatory spending	<u>3</u>	<u>7</u>	<u>15</u>	<u>25</u>	<u>37</u>	<u>49</u>
Total	8	24	40	58	81	105
Change in Deficit	1	3	3	4	9	13
Interest Rates: Effect of 1-Percentage-Point Higher Annual Rates Beginning January 1995						
Change in Revenues	0	0	0	0	0	0
Change in Outlays						
Net interest						
Higher rates	5	17	24	29	34	40
Debt service	a	1	3	5	7	10
Mandatory spending	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total	8	19	28	35	42	50
Change in Deficit	8	19	28	35	42	50

SOURCE: Congressional Budget Office.

a. Less than \$500 million.

culminating in \$12 billion of extra spending in 2000. Over time, net interest produces even more extra spending. As revenues falter, the government borrows more and incurs greater debt-service costs. In sum, the deficit in 2000 would be an estimated \$161 billion--nearly 60 percent--bigger than CBO's baseline if real growth was 1 percentage point lower than projected.

Unemployment

The second rule of thumb demonstrates the simplified effects on the budget of a 1-percentage-point increase in unemployment. As illustrated by the first rule of thumb, economic growth and unemployment are often related. Like the first, this second rule quantifies that relationship based on the work of economist Arthur Okun. It posits that an extra percentage point of unemployment is associated with a 2.5 percent reduction in GDP.

In CBO's baseline, the unemployment rate inches up from 5.4 percent in 1995 to 5.9 percent in 2000. This second rule of thumb assumes instead that unemployment jumps to 6.4 percent in 1995 and averages 6.9 percent by 2000. In keeping with the generalized relationship between economic growth and unemployment, GDP is 2.5 percent below its baseline levels throughout the six-year period. As expected, revenues drop, benefits rise, and interest costs climb relative to the baseline. Together, those effects push up the deficit by \$39 billion in 1995 and \$89 billion in 2000.

It is illuminating to compare this example with the first rule of thumb, which depicted the effects of sluggish economic growth. Given the assumed relationship between economic growth and unemployment, it takes about two and one-half years of lower growth--as described under the first rule--to generate an extra percentage point of unemployment. GDP and taxable incomes in the first rule's scenario thus lie above their counterparts in the second rule's scenario through mid-1997, but they fall farther and farther below them thereafter. The budgetary effects closely follow that pattern.

Inflation

Inflation produces effects on the federal budget that largely offset each other. The third rule of thumb generates estimates of the budgetary impact of inflation that is 1 percentage point higher than CBO's baseline assumption. If other economic variables are unaffected, higher inflation leads to larger taxable incomes and hence revenues. But higher inflation also boosts spending. Nearly all benefit programs would cost more, although with a lag; so would discretionary programs, unless policymakers decided to ignore the steady erosion of real resources. And interest rates would almost surely rise with inflation, fueling higher debt-service costs.

Higher inflation has virtually no effect on the deficit initially, as revenues rise almost in tandem with outlays. The extra spending gradually overtakes the additional revenues, however, nudging up the deficit by an estimated \$13 billion in 2000. Of course, nominal incomes and GDP are commensurately larger under this high-inflation scenario. Relative to GDP, the deficit in 2000 is 3.1 percent--the same as in the baseline.

The effects of inflation on the budget are subtle, and different conclusions are possible if one or two key assumptions are changed. The assumption that interest rates rise in step with inflation is crucial--it contributes \$40 billion in extra spending by 2000. The treatment of discretionary programs is also critical. Spending for such programs is limited by the caps initially established in the Budget Enforcement Act of 1990 and subsequently extended through 1998 by the Omnibus Budget Reconciliation Act of 1993. Those caps are partially adjusted to reflect increases (or decreases) in inflation, and CBO assumes that discretionary spending changes by the relatively small amount of the cap adjustments through 1998.

As discussed in Chapter 2, CBO looks at two alternative paths for discretionary spending after 1998, when the caps expire. The first path assumes that policymakers would attempt to preserve the real resources available to the programs they fund by appropriating more dollars in response to a jump in in-

flation. The second path assumes that such appropriations are simply frozen at 1998 nominal levels, forcing annual reductions in the real resources available to discretionary programs. The budgetary effects of inflation shown in Table C-1 are based on the first spending path, in which discretionary spending changes by the amount of the cap adjustments through 1998 and increases with inflation in the following years. Under that assumption, a 1-percentage-point increase in inflation generates extra discretionary spending of \$1 billion in 1997 and \$14 billion in 2000.

Under the second spending path, discretionary spending still changes by the amount of the cap adjustments through 1998 but remains level in the years that follow. Those assumptions result in very little additional discretionary spending by 2000--only about \$3 billion compared with the \$14 billion generated under the first path (see Table C-2). Thus, the second path has a slightly beneficial effect on the deficit but with a hidden cost: an even greater erosion of real resources for discretionary programs than the caps already cause. Under both paths, higher inflation has a negligible impact on the deficit.

Interest Rates

The final rule of thumb illustrates the sensitivity of the budget to interest rates. The Treasury finances the government's large and growing debt at market interest rates. Assuming that interest rates are 1 percentage point higher than in the baseline for all maturities in each year would drive up interest costs by over \$5 billion in 1995. That initial boost in interest costs is fueled largely by the extra costs of refinancing the government's short-term Treasury bills, which make up almost one-fourth of the marketable debt. More than \$700 billion worth of Treasury bills are now outstanding, and none of them have a maturity of more than a year.

The bulk of the marketable debt, however, consists of medium- and long-term securities, mainly those with initial maturities of 2 to 10 years. Inevitably, many of those securities will come due for refinancing over the next few years. And the Treasury continually adds new debt to finance the deficit. Thus, the budgetary effects mount as more and more debt is hit with higher interest rates. By 2000, the

Table C-2.
Effects on CBO Budget Projections of a Change in Inflation,
Keeping Discretionary Spending Level After 1998 (By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000
Change in Revenues	7	21	37	54	72	92
Change in Outlays						
Net interest						
Higher rates	5	17	24	29	34	40
Debt service	a	a	a	1	1	2
Discretionary spending	a	a	1	3	3	3
Mandatory spending	<u>3</u>	<u>7</u>	<u>15</u>	<u>25</u>	<u>37</u>	<u>49</u>
Total	8	24	40	58	75	94
Change in Deficit	1	3	3	4	3	2

SOURCE: Congressional Budget Office.

NOTE: The change in inflation assumed here is a 1-percentage-point higher annual rate beginning in January 1995.

a. Less than \$500 million.

vast majority of the debt would be affected. Of the marketable debt outstanding at the end of that year, CBO estimates that nearly 31 percent would have been originally borrowed in the 1995-2000 period and therefore would be affected by higher rates. About 54 percent would have been outstanding in early 1995 and then refinanced during the 1995-2000 period. Only about 15 percent of the debt would be unaffected by higher interest rates. The deficit in 2000 increases by \$50 billion as a result of the interest rate hike. This final rule of thumb incorporates small changes in other interest-sensitive spending, primarily student loans, but does not include any changes in revenues or deposit insurance spending. For both of those categories, the impact of higher interest rates is not obvious.

Conclusions

The rules of thumb are useful for illustrating the budgetary effects of key economic assumptions. They are roughly symmetrical: higher growth, lower unemployment, lower inflation, and lower interest rates would alter budget projections by about the same amount but in the opposite direction as the scenarios depicted in Table C-1.

CBO presents rules of thumb each year in its annual report. They always change somewhat from year to year because of the intervening growth in the

economy (principally affecting revenues), changes in interest rates, and new projections of growth in benefit programs, among other reasons. The results of applying this year's rules of thumb are nearly identical to those of last year.¹ The effects on revenues of the rules dealing with lower growth, higher unemployment, and higher inflation are slightly greater this year because of intervening growth in the economy. This year's calculations also indicate a slight increase in the budget's sensitivity to changes in interest rates, mostly as a result of more debt over the 1995-2000 period.

Although rules of thumb are a simple way to express the relationship between economic performance and budget outcomes, they have their limitations. Sustained errors of 1 percentage point are used for the sake of simplicity; they do not represent typical forecasting errors. Neither the size nor the timing of actual errors is likely to match the smooth paths assumed in these examples. Some variables, such as interest rates, are notoriously harder than others to predict. A sustained error of 1 percentage point in interest rates is much likelier than a similar error in the projection of real growth. In addition, because economic variables are interrelated, changes do not occur in isolation.

1. See Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1995-1999* (January 1994), Appendix C.

The Federal Sector of the National Income and Product Accounts

In addition to the usual budget presentation, the economic influence of the federal government can be portrayed through the national income and product accounts (NIPAs). The NIPAs provide a picture of government activity in terms of production, distribution, and use of output. That approach recasts the government's transactions into categories that affect gross domestic product, income, and other macroeconomic aggregates, thereby helping to trace the relationship between the federal sector and other areas of the economy.

Relationship Between the Budget and the NIPAs

A handful of major differences distinguish the NIPA version of federal receipts and expenditures from its budgetary counterpart. One example is the shift of selected dollars from the spending to the receipts side of the budget. Such shifts are referred to as netting and grossing adjustments. For the most part, they affect certain receipts that the budget records as negative outlays because they are voluntary or intrabudgetary in nature and are not deemed to result from the government's taxing power. To give a more comprehensive picture of receipts from all sources, the NIPAs shift those negative outlays from the expenditures to the receipts side of the ledger (see Table D-1). That shift does not affect the deficit.

Foremost among netting and grossing adjustments are intrabudgetary receipts for retirement contributions on behalf of federal workers (\$59 billion in 1995) and voluntary premiums for Medicare coverage (\$20 billion in 1995). Another relatively large item is deposit insurance premiums. Deposit insurance outlays are financed in part by premiums levied on banks and thrift institutions; those premiums correspondingly boost the netting and grossing adjustment by \$7 billion in 1995 but by just \$2 billion a year thereafter, when the Congressional Budget Office (CBO) anticipates a reduction in the premiums levied on commercial banks.

In contrast, another difference between the federal budget and the NIPAs--the treatment of lending and financial transactions--does affect the deficit. The NIPA totals exclude transactions that involve the transfer of existing assets and liabilities and that therefore do not contribute to current income and production. Prominent among such adjustments are those for deposit insurance outlays and direct loans made by (or repaid to) the government. Other, relatively small factors driving a wedge between budget and NIPA accounting include geographic adjustments (the exclusion of Puerto Rico, the Virgin Islands, and a few other areas from the national economic statistics) and timing adjustments (such as correcting for irregular numbers of benefit checks or paychecks because of calendar quirks). Preliminary actual figures for 1994 show a particularly large "other" difference on the receipts side. The \$16 bil-

Table D-1.
Relationship of the Budget to the Federal Sector of the
National Income and Product Accounts (By fiscal year, in billions of dollars)

	Actual 1994 ^a	1995	1996	1997	1998	1999	2000
Receipts							
Revenues (Budget basis) ^b	1,257	1,355	1,418	1,475	1,546	1,618	1,697
Differences							
Netting and grossing							
Government contributions for employee retirement	57	59	61	65	68	72	76
Medicare premiums	18	20	21	22	25	27	28
Deposit insurance premiums	7	7	2	2	2	2	2
Other	3	7	1	c	c	-1	-3
Geographic exclusions	-2	-3	-3	-3	-3	-3	-3
Other	16	4	3	4	3	5	5
Total	98	94	85	91	96	102	106
Receipts (NIPA basis)	1,355	1,449	1,503	1,566	1,642	1,721	1,803
Expenditures							
Outlays (Budget basis) ^b	1,461	1,531	1,625	1,699	1,769	1,872	1,981
Differences							
Netting and grossing							
Government contributions for employee retirement	57	59	61	65	68	72	76
Medicare premiums	18	20	21	22	25	27	28
Deposit insurance premiums	7	7	2	2	2	2	2
Other	3	7	1	c	c	-1	-3
Lending and financial transactions							
Deposit insurance	1	10	7	2	2	c	-1
Other	-1	-4	-2	-1	c	2	2
Defense timing adjustment	1	1	1	1	1	1	1
Geographic exclusions	-9	-9	-10	-10	-11	-11	-12
Other	-8	-4	-2	-7	-7	-7	-11
Total	68	86	78	75	81	85	83
Expenditures (NIPA basis)	1,529	1,617	1,704	1,774	1,849	1,956	2,065
Deficit							
Deficit (Budget basis) ^b	203	176	207	224	222	253	284
Differences							
Lending and financial transactions	c	6	4	2	2	1	c
Defense timing adjustment	1	1	1	1	1	1	1
Geographic exclusions	-6	-7	-7	-7	-8	-8	-9
Other	-24	-8	-5	-11	-10	-12	-15
Total	-29	-8	-7	-16	-15	-18	-23
Deficit (NIPA basis)	174	168	201	208	207	236	261

SOURCE: Congressional Budget Office.

NOTE: The budget projections assume that discretionary spending rises with inflation after the caps expire in 1998.

- a. Differences estimated by CBO. Actual NIPA receipts, expenditures, and deficit for 1994 are subject to revision by the Department of Commerce, Bureau of Economic Analysis.
- b. Includes Social Security and the Postal Service.
- c. Less than \$500 million.

lion entry in that category is primarily due to timing differences and early estimates of corporate liabilities based on incomplete information from the Bureau of Economic Analysis. When updated data become available, CBO expects the "other" difference to diminish.

NIPA Receipts and Expenditures

The federal sector of the NIPAs generally portrays receipts according to their source and expenditures according to their purpose and destination (see Table D-2).

The leading source of receipts for the federal government in the 1995-2000 period is taxes and fees paid by individuals. Following that category closely are contributions (including premiums) for social insurance such as Social Security, Medicare, unemployment insurance, and federal employees' retirement. Each source is expected to raise around \$600 billion in 1995. The remaining categories are corporate profits tax accruals, including the earnings of the Federal Reserve System, and indirect business tax and nontax accruals (chiefly from excise taxes and fees).

Classifying government expenditures according to their purpose and destination is more complicated. Defense and nondefense purchases of goods and services clearly enter directly into gross domestic product (GDP). The effects of the remaining expenditure categories are less straightforward, however, because their effects on GDP hinge on the recipients' use of the funds. For example, transfer payments (led by Social Security) may be used for a variety of purchases--from durable goods to services--and will not be counted as part of GDP until the funds are spent. Another category, grants to state and local governments, ultimately translates into state and local transfers (such as Medicaid) or purchases (such as highway construction).

Although both the budget and the NIPAs contain a category labeled "net interest," the NIPA figure is smaller. A variety of differences cause the two mea-

sures to diverge, the greatest of which is the contrasting treatment of interest received on late payments of personal and business taxes. In the budget, both types of payments are counted on the revenue side, as individual income taxes and corporate income taxes, respectively. In the NIPAs, those differences appear as offsets to federal interest payments, thereby lowering net interest payments by \$12 billion to \$15 billion each year through 2000. Also, recent data on federal net interest expenditures from the Bureau of Economic Analysis contain a fairly large downward adjustment (about \$8 billion) without obvious explanation.

The category labeled "subsidies less current surplus of government enterprises" contains two components, as its name suggests. The first--subsidies--is defined as monetary grants paid by government to businesses, including state and local government enterprises such as local public housing authorities. Subsidies are dominated by housing assistance, which accounts for approximately two-thirds of 1995 subsidy outlays.

The second portion of the category is the current surplus of government enterprises. Government enterprises are certain business-type operations of the government--for example, the Postal Service. The operating costs of government enterprises are mostly covered by the sale of goods and services to the public rather than by tax receipts. The difference between sales and current operating expenses is the enterprise's surplus or deficit. In 1995, the current surplus of government enterprises will be approximately \$1 billion. *Government enterprises* should not be confused with *government-sponsored enterprises* (GSEs), private entities established and chartered by the federal government to perform specific financial functions, usually under the supervision of a government agency. Examples of GSEs include the Federal National Mortgage Association (Fannie Mae) and the Student Loan Marketing Association (Sallie Mae). As privately owned organizations, GSEs are not included in the budget or in the federal sector of the NIPAs.

As emphasized in Chapter 2, policymakers must comply with discretionary spending caps in future years, but they may do so in any number of ways. Unspecified savings of \$5 billion in 1996 and larger

Table D-2.
Projections of Baseline Receipts and Expenditures Measured by the
National Income and Product Accounts (By fiscal year, in billions of dollars)

	Actual 1994 ^a	1995	1996	1997	1998	1999	2000
Receipts							
Personal Tax and Nontax Receipts	556	606	641	670	707	745	787
Corporate Profits Tax Accruals	162	165	168	173	179	186	192
Indirect Business Tax and Nontax Accruals	91	100	91	91	92	94	95
Contributions for Social Insurance	<u>546</u>	<u>578</u>	<u>604</u>	<u>632</u>	<u>663</u>	<u>695</u>	<u>729</u>
Total	1,355	1,449	1,503	1,566	1,642	1,721	1,803
Expenditures							
Purchases of Goods and Services							
Defense	296	289	288	298	307	320	331
Nondefense	<u>144</u>	<u>151</u>	<u>155</u>	<u>163</u>	<u>169</u>	<u>175</u>	<u>182</u>
Subtotal	439	440	443	461	476	495	513
Transfer Payments							
Domestic	660	702	752	802	854	911	968
Foreign	<u>16</u>	<u>15</u>	<u>15</u>	<u>15</u>	<u>16</u>	<u>16</u>	<u>17</u>
Subtotal	676	717	767	817	869	927	985
Grants-in-Aid to State and Local Governments	195	209	224	239	256	274	291
Net Interest	186	216	239	248	256	269	285
Subsidies Less Current Surplus of Government Enterprises	32	34	36	36	36	39	40
Required Reductions in Discretionary Spending	<u>n.a.</u>	<u>n.a.</u>	<u>-5</u>	<u>-27</u>	<u>-45</u>	<u>-47</u>	<u>-49</u>
Total	1,529	1,617	1,704	1,774	1,849	1,956	2,065
Deficit							
Deficit	174	168	201	208	207	236	261

SOURCE: Congressional Budget Office.

NOTES: The budget projections on which the NIPA projections are predicated assume that discretionary spending rises with inflation after the caps expire in 1998.

n.a. = not applicable.

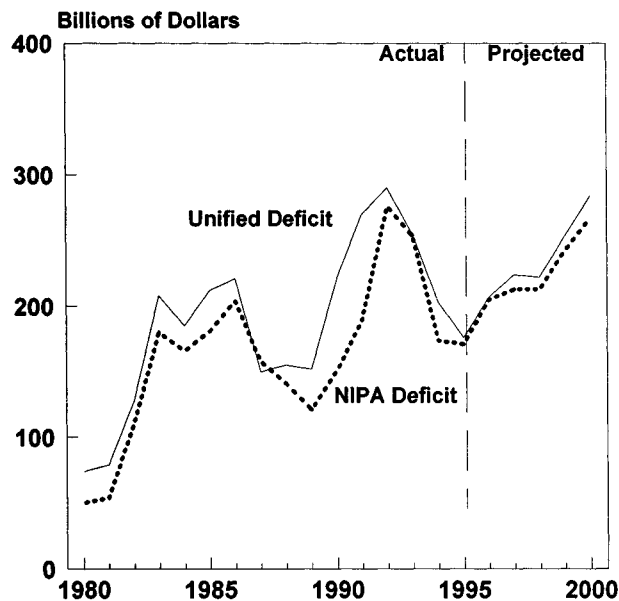
a. Subject to revision by the Department of Commerce, Bureau of Economic Analysis.

amounts thereafter will thus be required (see Table D-2). The savings cannot be assigned to particular NIPA categories; however, they are most likely to come from defense and nondefense purchases and grants.

NIPA Deficits

In the early and mid-1980s, the NIPA deficit and the unified budget deficit generally paralleled each other, with the NIPA deficit several billion dollars lower than its budgetary counterpart (see Figure D-1). Since then, the wedge between the two has fluctuated widely because of large swings in lending and financial exclusions. For example, sizable deposit insurance outlays in 1989 through 1991 widened the gap between the NIPA and unified budget deficit significantly. Since 1992, when deposit insurance spending plummeted, the gap between the NIPA and unified budget measures has narrowed. In CBO's new projections, the budget and NIPA deficits move pretty much in tandem, with the NIPA deficit generally running \$5 billion to \$10 billion below its budgetary counterpart.

Figure D-1.
A Comparison of NIPA and Unified Budget
Deficits, Fiscal Years 1980-2000



SOURCES: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

NOTE: NIPA = national income and product accounts.

Historical Budget Data

This appendix provides historical data for revenues, outlays, and the deficit. Estimates of the standardized-employment deficit and its revenue and outlay components for fiscal years 1956 through 1994 are reported in Table E-1, along with estimates of potential gross domestic product (GDP), actual GDP, and the nonaccelerating inflation rate of unemployment (NAIRU). The standardized-employment deficit and its components are also shown as a percentage of potential GDP. Data consistent with the budget projections in Chapter 2 are available for fiscal years 1962 through 1994 and are reported in Tables E-2 through E-11. The data are shown both in nominal dollars and as a percentage of gross domestic product.

The change in the standardized-employment deficit, as shown in Table E-1, is a commonly used measure of the short-term impact of discretionary fiscal policy on aggregate demand. The standardized-employment deficit--which is often called the structural deficit--excludes the effects on revenues and outlays of cyclical fluctuations in output and unemployment. More specifically, standardized-employment revenues are the federal revenues that would be collected if the economy was operating at its potential level of GDP. Those revenues are greater than actual revenues when GDP is below its potential level, because the tax bases are then cyclically depressed. Standardized-employment outlays are the federal outlays that would be recorded if the economy was at an unemployment rate consistent with stable inflation--the NAIRU, which is also the benchmark used to compute potential GDP. These outlays are less than actual outlays when the rate of unemployment is higher

than the NAIRU, because transfer payments for unemployment insurance and other programs are then cyclically swollen.

Federal revenues, outlays, deficit or surplus, and debt held by the public are shown in Tables E-2 and E-3. Revenues, outlays, and the deficit have both on-budget and off-budget components. Social Security receipts and outlays were placed off-budget by the Balanced Budget and Emergency Deficit Control Act of 1985; the Postal Service was moved off-budget beginning in 1989 by the Omnibus Budget Reconciliation Act of 1989.

The major sources of federal revenues (including off-budget revenues) are presented in Tables E-4 and E-5. Social insurance taxes and contributions include employer and employee payments for Social Security, Medicare, Railroad Retirement, and unemployment insurance, and pension contributions by federal workers. Excise taxes are levied on certain products and services such as gasoline, alcoholic beverages, and air travel. The windfall profits tax on domestic oil producers, enacted in 1980 and classified as an excise tax, brought in large amounts of money in the early 1980s but by 1987--in the face of declining oil prices--generated nothing, paving the way for its repeal in 1988. Miscellaneous receipts consist of deposits of earnings by the Federal Reserve System and numerous fees and charges.

Total on- and off-budget outlays for major spending categories are shown in Tables E-6 and E-7. In order to compare historical outlays with the projections discussed in Chapter 2, the historical data have

been divided into the same categories of spending as the projections. Spending controlled by the appropriation process is classified as discretionary. Tables E-8 and E-9 divide discretionary spending into its defense, international, and domestic components. Entitlements and other mandatory spending include programs for which spending is governed by laws making those who meet certain requirements eligible to receive payments. Additional detail on entitlement programs is shown in Tables E-10 and E-11. Deposit insurance represents the net costs of dealing with insolvent banks and savings and loan institutions; such

outlays were especially volatile beginning in 1988. Net interest is identical to the budget function with the same name (function 900).

Offsetting receipts include the federal government's contribution toward employee retirement, fees and charges such as Medicare premiums, and receipts from the use of federally controlled land and offshore territory. In 1991 and 1992, this category was swelled by contributions from allied nations to help pay the costs of Operation Desert Storm.